Annual Report

For Year Ending
December 31, 1988

Alberta
AUTOMOBILE INSURANCE BOARD

CCA-08.003

89-05808/

MINISTER OF
CONSUMER AND CORPORATE AFFAIRS

229 Legislature Building, Edmonton, Alberta, Canada T5K 2B6 403/427-2305 Fax 403/422-6997

The Honourable Dr. David J. Carter
Office of the Speaker
Legislative Assembly of Alberta

Sir:

I have the honour to submit the Annual Report of the Alberta Automobile Insurance Board for the year ending December 31, 1988.

With sincere regards,

Dennis Anderson
Minister

Alberta
AUTOMOBILE INSURANCE
BOARD

19th Floor, 10025 Jasper Avenue, Edmonton, Alberta, Canada T5J 3Z5 403/427-5428

The Honourable Dennis Anderson
Minister of Consumer and Corporate Affairs
122 Legislative Building
Edmonton, Alberta

Honourable Sir:

Pursuant to R.S.A. 1980, Chapter 1-5, the Insurance Act, Section 344(2), we respectfully submit herewith, the seventeenth report of the Alberta Automobile Insurance Board, for the year ending December 31, 1988.

A.H. Wachowich, Chairman

P.G. Galway

J.M. Tweddle

E.P. Chaba

ALBERTA AUTOMOBILE INSURANCE BOARD

1988 ANNUAL REPORT

The Alberta Automobile Insurance Board, constituted under subsection 338(1) of The Insurance Act, is empowered under section 339 thereof to investigate any matters it thinks fit respecting automobile insurance in Alberta, and to approve rates charged by insurers for compulsory automobile coverage under The Motor Vehicle Administration Act.

RATES

Insurers conducting business in Alberta are required by The Insurance Act to report their experience to a Canadian statistical plan, the results of which are compiled annually in an Insurance Bureau of Canada publication called the Green Book. The 1987 statistics in the Green Book, released in May 1988, and half-year update released in November 1988, were analyzed by the Board's actuarial consultant. These analyses were used in weighted proportions with the insurer's own statistics and those of insurance underwriting groups to establish a base for any rate maintenance or rate change to be considered by the Board. The loss experience remained relatively stable for the years 1982 through 1984. However, the 1985 results showed a marked deterioration, particularly for Private Passenger vehicles and that trend continued through 1986 and 1987. By 1988, Third Party Liability coverage was severely underpriced and it was expected insurers would be forced to abandon their "wait and see" posture.

MARKET

Premium level for Private Passenger vehicles had been edging upward since the latter part of 1985, but fell far short of counteracting the increasingly adverse underwriting results. In the face of competition and probable loss of market share, insurers had settled for modest increases, at best, and hoped the loss situation would turn around. By the last quarter of 1988, a number of insurers realized that increases in premium level were inevitable and to delay much longer would only serve to further aggravate the situation.

Through the final quarter, the momentum grew to achieve some upward adjustment, though many increases would not be effective until early 1989. While premium levels will increase, competition continues to be a moderating influence in the marketplace. Insurers have also been given to understand that motorists cannot be presented with inordinate increases as a consequence of their own failure to take appropriate action at an earlier date. Industry must proceed in a responsible manner to improve the underwriting results and preserve both market stability and availability.

The Facility Association is the industry's mechanism for providing insurance coverage to those consumers encountering difficulty in obtaining the same in the regular market. The Board monitors the Association's program for all coverages. Consistent with the standard market, their experience has continued to deteriorate for Third Party Liability coverage, particularly on Private Passenger vehicles.

The current round of increases will not fully accomplish a return to acceptable underwriting results. Of even greater concern is the continuing escalation of loss costs.

MEETINGS

In 1988, the Board held 9 meetings during which 84 applications were examined. This number compares with 93 applications in 1987, 94 in 1986 and 110 in 1985. In 1988, a total of twenty-one applications were not approved as submitted. Three applications were declined of which one was approved on appeal. Another eighteen applications were approved subject to specified modifications.

LIAISON

Representatives of the Automobile Insurance Board met with the executive members of the following industry associations during 1988 in order to maintain dialogue with the industry's various component groups:

Insurance Bureau of Canada
Insurance Brokers Association of Alberta
Facility Association
Canadian Federation of Insurance Agents and Brokers

and also attended the conference for:

Association of Superintendent of Insurance of the Provinces of Canada
Insurers Brokers Association of Alberta
International Insurance Society, Inc.

These meetings occurred between July and November 1988.

INQUIRIES

Inquiries and complaints are monitored for unfair and inequitable rules and practices. Complaints are assessed for compliance with rates and rules, and are generally resolved by the provision of a detailed explanation. Appropriate action to rectify the disparity for the individual and/or the general public is taken by the Board. Of the 872 inquiries received by the Board office in 1988, 135 were redirected to other government departments.

BENEFITS

The current compulsory Third Party Liability limit of $200,000 places Alberta at a level at least equal to any other Canadian jurisdiction. However, the Board recognizes the critical importance of adequate limits and continues to maintain its recommendation of a compulsory limit of at least $300,000 which would involve an increase of approximately 4% to the Third Party Liability premium.

STAFF

Susan Steeves, B.A., F.I.I.C., continued as Administrator to the Board. Marlene Boyarzin is the Clerk Typist.

MEMBERSHIP ON THE BOARD

Mr. Eugene P. Chaba joined the Board effective January 1, 1988 for a term ending January 1, 1991.

GENERAL

The Board has continued its examination and review of the efficacy of the existing automobile insurance rating system, with a particular emphasis upon the advisability of maintaining the existing rating factors of age, gender and marital status.

It continues to be of the view that the current system, which maintains the philosophy of cost-based pricing, produces rates which are the most fair and equitable to the motoring public as a whole. It considers that the current system is delivering automobile insurance to the motoring public at a reasonable cost and, in the result, it is serving the Alberta motoring public well.

The Board is aware that the factors of age, gender and marital status, either individually or in some combination, have been eliminated from auto rating systems in other jurisdictions, although recent judicial review by the Ontario Divisional Court confirms that the impugned factors are not in violation of the provincial human rights legislation.

The Board is actively examining and evaluating the effects of alternative rating systems which have been, or are being, implemented in other comparable jurisdictions.

The Board notes that the automobile rating system in Ontario has been modified to eliminate age, gender and marital status, but is expecting that the effect of the changes will increase costs of insurance to all motorists, except young male drivers. The greatest increases will be to certain other groups of drivers, including young women, adults with limited experience and senior citizens. The Board has derived updated information from

participants of the industry to suggest that similar results would occur in Alberta if age, gender and marital status were eliminated. The Board concludes that the elimination of these factors from the auto rating system in Alberta would result in significant subsidization by certain segments of the motoring public for a small group.